INSURANCE - HONG KONG

Hong Kong and China insurance regulatory bodies team up

July 04 2017 | Contributed by Howse Williams Bowers

Introduction

On May 16 2017 the Hong Kong Office of the Commissioner of Insurance (OCI) and the China Insurance Regulatory Commission (CIRC) signed an equivalence assessment framework agreement on the insurance solvency regulatory regime. The objective of the agreement is to conduct an equivalence assessment on the insurance solvency regulatory regimes of Hong Kong and mainland China, as well as to implement procedures and transitional arrangements to increase cooperation between the two insurance regulatory bodies.

In 2004 a cooperative agreement on insurance supervision between the two insurance regulators was signed. The move to mutual recognition of both sides' solvency regulatory regimes is expected to allow closer cooperation between the two regulators.

Equivalence agreement

The new equivalence agreement aims to achieve mutual equivalence recognition of the solvency regulatory regimes between the CIRC and the OCI. Equivalent recognition means that both regulatory bodies will agree that their standards of regulation are the same or similar to each other.

At present, the two sides are independently developing their own risk-based solvency regulatory regimes. In the fourth quarter of 2014 the OCI published its consultation paper on the proposed risk-based capital framework (for further details please see "Insurance industry may move to risk-based capital regime") and in September 2015 published its conclusions. In 2013 the CIRC introduced the second generation of its solvency supervision system under the China Risk-Oriented Solvency System, which is subject to ongoing development. Mutual equivalence between Hong Kong and China will provide regulatory and supervisory convenience, and prevent administrative overlap by harmonising the two regulatory regimes.

The OCI has stated that the goal is to complete the equivalence assessment within four years. Transitional arrangements will be in place before the completion of the assessment and discussions will take place between the OCI and CIRC to devise specific measures. Both sides have agreed that under the transitional arrangements they will recognise each other's solvency regime as similar.

Responses and outlook

Commissioner of Insurance John Leung commented that the signing of the agreement will boost insurance industry opportunities on both sides and encourage cross-border business. Further, CIRC Vice Chairman Chen Wenhui explained that strengthening cooperation will safeguard the common interests of insurance regulators and enhance regulatory efficiency and market effectiveness on both sides.

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Although traditionally it has been difficult for foreign insurers to enter the mainland insurance market, the move to mutual equivalence suggests that in the future it will be easier for insurers approved by one regulator to be accepted by the other. In addition to the solvency requirements, foreign insurers must meet other licensing requirements imposed by the CIRC. They are also subject to the usual restrictions on foreign direct investment in China (eg, restrictions on the maximum allowed equity ratio).

Foreign insurers also face tough competition from domestic insurers. Only a few foreign insurers have successfully broken into the mainland insurance market. According to data published by EY in 2015, foreign insurers represent no more than 6% of the Chinese life insurance market, while the top five domestic Chinese insurers generate 62.5% of the premium income.

Hong Kong insurers can enter the mainland market through strategic mergers with mainland companies under the Mainland and Hong Kong Closer Economic Partnership Arrangement. However, market entry is also subject to a number of tough conditions. These include the requirements that the applicant-group must:

- hold total assets exceeding US$5 billion;
- be in possession of more than 30 years' establishment experience attributable to one of the Hong Kong companies in the group; and
- include a Hong Kong enterprise that has had a representative office on the mainland for more than two years.

Comment

It is expected that the CIRC and OCI's collaboration will mutually benefit the development of the insurance and reinsurance business in both Hong Kong and mainland China, further reinforcing Hong Kong's status as an international reinsurance hub. Insurers should keep an eye on developments in this area and for details of the transitional arrangements once these have been finalised.

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